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Marie T. Breslin
Director
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EX PARTE OR LATE FILED

Bell Atlantic

March 11, 1998

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MAR 11 1998
FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

EX PARTE

Ms. Magalie Roman Salas
Secretary
Federal Communications Commission
1919 M Street, N.W.
Washington, D.C. 20554

Re: CC Docket 96-128, Pay Telephone Reclassification and Compensation

On March 10, 1998, Aaron Panner of Kellogg, Huber, Hansen, Todd and Evans and the undersigned, representing the RBOC/GTE/SNET Payphone Coalition, met with Glenn Reynolds of the Common Carrier Bureau.

The purpose of the meeting was to explain the attached materials developed by the Payphone Communications Alliance. Also provided were the attached study materials prepared by Frost and Sullivan to quantify IXC rate increases, savings in payphone commission payments and payphone-related access charge reductions.

Please call me if you have any questions concerning this material.

Sincerely,

Marie Breslin

Attachments

cc: G. Reynolds

The Toll-Free Truth:

Long Distance Companies Overcharge for Payphone Calls

Long distance companies are charging consumers hundreds of millions of dollars more than necessary to compensate payphone providers for toll-free and dial around calls. Here's the breakdown:

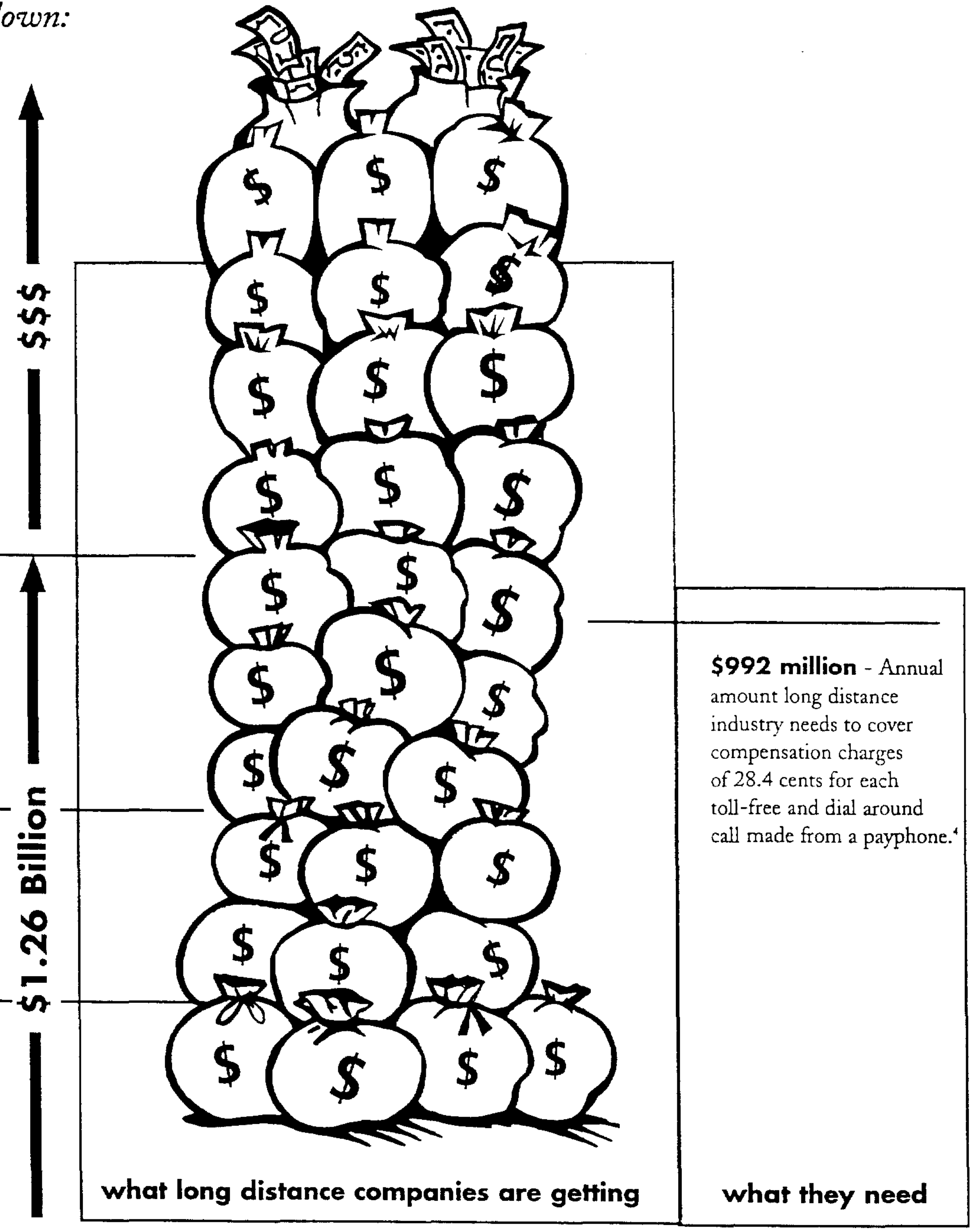
$$$ - In 1997, AT&T, MCI, Sprint and other long distance companies began imposing millions of dollars in surcharges -- up to 30 cents per call -- on all dial around and toll-free calls made from payphones. These surcharges alone will recover any amounts paid to payphone providers.

$$$ - Amount gained by MCI, Sprint and some other long distance companies from rate increases attributed to payphone compensation.

$641.6 million - Amount gained *by AT&T alone* in 1997 from rate increases on toll-free, business long distance and credit-card calls. AT&T imposed the hikes explicitly to compensate payphone providers.[1]

$371.5 million - Amount saved by long distance companies in 1997 in commission payments to location owners and payphone service providers.[2]

$250 million - Annual amount saved by long distance companies from elimination of interstate subsidies for payphone services provided by local phone companies[3]



$992 million - Annual amount long distance industry needs to cover compensation charges of 28.4 cents for each toll-free and dial around call made from a payphone.[4]

Sources:

1. *Frost & Sullivan. Total amount is for AT&T rate hikes in February and May and does not include rate increases imposed by MCI, Sprint and other long distance carriers in 1997. On an annualized basis, the AT&T increases would exceed $900 million.*
2. *Based on public data and data submitted by payphone providers and independently verified and validated by Frost & Sullivan*
3. *Federal Communications Commission*
4. *Frost & Sullivan analysis based on FCC data*

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THE TOLL-FREE TRUTH

The Situation

- Section 276 of the Telecommunications Act of 1996 requires that payphone service providers (PSPs) be *"fairly compensated for each and every completed... call"* made from a payphone. This provision ended the free ride that long distance companies enjoyed, paying little or nothing for millions of calls made from payphones.

- These calls fall into two categories: (1) "access code," or "dial around," calls that give the caller the ability to choose a particular long distance service (these include, for example, 10XXX calls such as "10321," as well as 1-800-COLLECT and 1-800-CALLATT); or (2) "subscriber-800," or "toll-free," calls that permit a caller to reach a toll-free number obtained from a long distance company ("800" or "888").

- In April of 1997, the local telephone companies reduced their federal access charges to long distance carriers (the fees long distance companies pay to originate and/or terminate long distance calls on local telephone networks) by more than $250 million per year, specifically to reflect the reduction in costs from the elimination of payphone subsidies as directed by Congress in Section 276 of the Act.

- In October of 1997, the FCC established a charge of 28.4 cents per call for dial around and toll-free calls made from payphones. *Long distance companies, not end users, are responsible for paying the PSPs this charge.*

- The FCC set the per-call charge for these calls based on the prevailing deregulated rate for a local call made from a payphone (local coin call), less the costs the FCC identified as avoided when a caller places a dial around or toll-free call from a payphone.

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THE FACTS

- ✓ Despite some recent reports to the contrary, payphone <u>users</u> are not charged at the payphone for toll-free and dial around calls.

- ✓ *In a recent consumer information bulletin, the Commission said, "Long distance companies have significant leeway on how to compensate PSPs. The FCC left it to each long distance company to determine how it will recover the cost of compensating PSPs."*

- ✓ The truth is that some long distance companies have used the FCC's payphone proceeding as an excuse to overcharge their customers.

- ✓ The total benefit accrued by long distance companies from rate increases, access charge and commission savings reductions is more than enough to cover payphone compensation.

  - ⇒ Over the last year, long distance companies have imposed several across-the-board increases in their toll-free rates, each time asserting that the increase was for the explicit purpose of covering PSP compensation for toll-free and dial around calls from payphones.

  - ⇒ Long distance companies have pocketed more than $250 million a year in recurring savings, specifically due to elimination of payphone subsidies.

  - ⇒ Long distance companies have saved tens of millions of dollars in commissions to PSPs and payphone location owners as a result of the massive shift from 0+ calls to dial around calls made possible by changes in federal law in 1992, the Telephone Operator Service Improvement Act ("TOCSIA"). For example, AT&T paid commissions of up to 95 cents per call for each 0+ call received from a payphone. By shifting 0+ calls to the heavily advertised "1-800-CALL ATT," AT&T used the technological loophole to reap huge savings and profit.

- ✓ The new per-call charge that long distance companies imposed last fall (AT&T - 28 cents; MCI and Sprint - 30 cents) on their toll-free and credit card subscribers is entirely unjustified since these companies have already more than recovered the cost of the FCC's payphone decision. These new, additional per-call charges are creating a windfall for long distance companies and a backlash from toll-free subscribers and consumers against a proper and fair decision by the FCC.

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BRIEF BACKGROUND

General

On February 8, 1996, the President signed into law the Telecommunications Act of 1996 ("Act"). Passage of the Act was critical to the future success and growth of the U.S. payphone industry. For decades, government regulation kept the price of a local payphone call artificially low.

Section 276 of the Telecommunications Act of 1996 was designed to level the playing field in the payphone industry to promote competition among all payphone service providers (PSPs), telephone companies and independents, and the widespread deployment of payphone services.[1] It requires that all PSPs be *"fairly compensated for each and every completed... call"* made from their payphones, and it gives the FCC the responsibility of ensuring that this requirement is met. This compensation requirement is particularly important since as much as one-half to two-thirds of long distance calls from payphones have shifted to dial around and toll-free calls.[2] Section 276 also directs the FCC to ensure that all payphone subsidies are eliminated.

FCC's First Set of Rules
Per-Call Compensation Set at 35 Cents

On September 20, 1996, the FCC adopted its first set of rules implementing Section 276 of the Act. It deregulated local coin rates in all 50 states, effective October 7, 1997, and it directed the local telephone

[1] There are about 2 million payphones in the United States. Approximately 80 percent are owned by local telephone companies or their affiliates. Independent payphone companies own the rest.
[2] "Access code," or "dial around" calls give the caller the ability to choose a particular long distance service (these include, for example, 10XXX, such as "10321," as well as 1-800-COLLECT and 1-800-CALLATT). Subscriber-800," or "toll-free," calls permit a caller to reach a toll-free number obtained from a long distance company ("800" or "888").

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companies to eliminate payphone subsidies by April 15, 1997. For the first period – November 1996 to October 1997 – the FCC required that long distance companies with more than $100 million in revenues pay each PSP a flat rate per phone, apportioned among long distance companies by market share. In the second 12-month period (which has already begun), when per-call tracking is widely available, the FCC initially set a compensation rate of 35 cents per call, the prevailing rate for local coin calls in states where the rate for such calls is not regulated. The FCC reasoned that a long distance company should ultimately negotiate with PSPs for a per-call compensation rate.

FCC's Second Set of Rules
Per-Call Compensation Reduced to 28.4 Cents

On July 1, 1997, the U.S. Court of Appeals for the DC Circuit remanded the payphone compensation rate to the FCC for further consideration. On October 9, 1997, the FCC adopted a second set of rules, reducing the per-call compensation from 35 cents per call to 28.4 cents, over the objections of the PSPs. The FCC again concluded that "a market-based rate best responds to the competitive marketplace for payphones consistent with the deregulatory scheme...pursuant to Section 276, and will also effectively advance the statutory goals of encouraging competition and promoting the deployment of payphones."

Long Distance Companies Raise Rates
Using the FCC Rules as an Excuse to Overcharge Customers

Several long distance companies have asked the FCC to reconsider its October 9 decision. A decision from the FCC is anticipated by the spring of 1998.

These long distance companies are challenging the FCC rules despite the significant reduction in the per-call rate from 35 cents to 28.4 cents (nearly 20 percent). In the meantime, the long distance companies have repeatedly raised their toll-free rates purportedly to cover payphone compensation, added per-call surcharges (to cover the same payphone compensation) and pocketed in excess of $250 million in savings from the elimination of payphone subsidies.

AT&T, for example, raised its 800 rates at least three times in 1997 to pay for the new compensation rate.

- On February 27, AT&T raised rates for all toll-free calls by 3 percent and imposed a charge of 15 cents per call for business credit card calls.
- On May 1, AT&T raised its interstate toll-free rates by 7 percent and business international and interstate outbound services by 2 percent.
- *On June 1, AT&T added another 35-cent per-call charge for operator handled calls, including calling card calls "to offset payments to payphone owners."* This charge was reduced to 28 cents only after the FCC reduced the per-call charge in October 1997. The new 28 cent per call surcharge was expanded to include toll free calls.

MCI and Sprint have repeatedly raised their rates as well.

- *MCI raised its 800 rates twice in 1997*, each time by more than three percent.
- *Sprint also raised its 800 rates twice*, by two percent in November 1996, and again by about five percent in 1997.
- *MCI and Sprint also announced last year that they will impose $0.30 per call surcharge for payphone use.*

Even though AT&T, MCI and Sprint announced per-call rate hikes to cover the 28.4 cents, none have rolled back the substantial across-the-board rate increases they made earlier, specifically to cover payphone compensation.

Finally, since April 15, 1997 the long distance companies have also pocketed in excess of $250 million as a result of the elimination of payphone subsidies historically included in local telephone company access charges.[3] None of these savings have been passed on to consumers or to 800 service customers.

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[3] Access charges are the charges long distance companies pay to local telephone companies for the origination and termination of long distance calls on the local telephone network.

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QUESTIONS AND ANSWERS

✓ What did the Telecommunications Act of 1996 require?

Section 276 of the Telecommunications Act requires the FCC to establish a per-call compensation plan to ensure that the owners of the nation's two million payphones are paid for "each and every call" made from a payphone. Before 1996, payphone service providers (PSPs) often received no compensation at all for completed toll-free and dial around calls. The Act also eliminated the payphone subsidies that consumers paid in higher rates for other telephone services.

✓ What are dial around and toll-free calls?

"Access code," or "dial around," calls give the caller the ability to choose a particular long distance service (these include, for example, 10XXX calls such as "10321," as well as 1-800-COLLECT or 1-800-CALLATT).

"Subscriber-800," or "toll-free," calls permit a caller to reach a toll-free number obtained from a long distance company ("800" or "888").

✓ What did the FCC do?

Effective October 7, 1997, the FCC required long distance companies to pay owners of payphones 28.4 cents for each toll-free or dial around call made from a payphone, ending the "free ride" that long-distance companies had been taking for years on millions of calls from payphones. The "free ride" problem was aggravated in recent years as a result of a massive shift from "0+" to dial around calls encouraged by long distance company advertising and made possible by the enactment of the Telephone Operator Service Improvement Act (TOCSIA) in 1992, which required that payphones provide unrestricted access for long distance company access code calls.

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GLOSSARY OF TERMS

Access Charge	The fee paid to local telephone companies by long distance companies to connect long distance calls to local customers.
American Public Communications Council (APCC)	The nation's largest independent payphone trade association, which represents some 2,000 owners, operators, suppliers and manufacturers of public communications equipment and services.
Cross-Subsidization	Before the Telecommunications Act of 1996 was implemented, local telephone company payphone operations were subsidized. When the new law ended these subsidies, local phone companies reduced access charges (see above) paid by long distance companies by more than $250 million a year to reflect the reduced costs.
Dial around and Toll-free Calls	"Access code," or "dial around," calls are those that give the caller the ability to choose a particular long distance service (these include "10XXX" calls such as 10321, as well as 1-800-COLLECT or 1-800-CALL-ATT), "Subscriber-800," or "toll-free," calls are those that permit a caller to reach a toll-free number obtained from a long distance company ("800" or "888").
FCC - Federal Communications Commission	Regulates interstate communications and is responsible for implementing the payphone provisions of the Telecommunications Act. The current chairman is William E. Kennard. The other four FCC commissioners include Susan Ness, Harold Furchtgott-Roth, Michael Powell and Gloria Tristani.
Local Coin Rate	The price consumers pay to place a local call from a public payphone. Payphone coin rates were regulated by state utility commissions until October 7, 1997 but are now market driven.
Long Distance Carrier	A company providing long-distance phone services. These include "800" and "888" services.

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✔ **Was this a sudden decision?**

No. Long distance companies and other interested parties actively participated in an extended multi-year process. First, a 1995 court decision had put the industry on notice that PSPs must be compensated for these calls. Second, after the passage of the 1996 Act, the FCC spent over 8 months considering the issue and heard from 100 parties before issuing its payphone compensation regulations last year. AT&T, MCI, Sprint, WorldCom and CompTel (the trade association for smaller long distance companies) were among those filing comments.

✔ **Who pays?**

Contrary to what some long distance companies are saying, nothing in the FCC regulations requires long distance companies to impose a per-call charge on consumers. In fact, in a recent consumer alert, the FCC explicitly rejects the claim by long distance companies that they were forced to pass this charge on to customers. Instead, the FCC ruling simply requires long distance companies to provide fair compensation to payphone owners for use of their equipment and services.

✔ **Can consumers still make a toll-free or dial-around call from a payphone without depositing a coin?**

Yes. The Telecommunications Act requires that long distance companies - not consumers - compensate payphone owners for each call. The FCC has made it clear that the long distance companies have significant leeway on how to compensate the PSPs.

✔ **Will PSPs block "800" number calls from payphones?**

No. PSPs are prohibited by law from blocking toll-free calls from payphones.

✔ **What have the long distance companies done?**

They have exploited the issue, using the payphone compensation charges as an excuse for raising their rates while repeatedly blaming others. AT&T, MCI and Sprint, for example, have increased their "800" service rates twice in the last year. On June 1, 1997, AT&T added a 35-cent charge to dial around calls, lowering it to 28 cents and expanding the surcharge to cover toll-free calls after the FCC reduced the per-call compensation rate. These per-call charges were in addition to the across-the-board rate hikes for toll-free and business credit card calls imposed earlier in 1997. In the fall of 1997, MCI and Sprint added a 30-cent charge for dial around calls and toll-free calls.

✓ **What happened to the payphone subsidy?**

It's gone. The payphone subsidy was eliminated on April 15, 1997 providing an economic benefit to long distance companies in excess of $250 million per year. The subsidy was included in the "access charge" that long distance companies pay local telephone companies to originate and/or terminate long distance calls on the local networks. To date, there is no evidence that the long distance companies have passed those savings along to consumers or to owners of 800 numbers.

✓ **What are the benefits of payphone deregulation?**

In passing the Telecommunications Act, Congress ended a system that discouraged new companies from entering the payphone market. The Act was designed to promote competition and increase the availability and widespread placement of payphones. According to the FCC, it will also give Americans greater access to emergency and public safety services. The Telecommunications Act will also encourage technological advancement in payphones, including connections for laptops, built-in fax, screens for Internet access, and equipment for the hearing impaired.

✓ **What is the Payphone Communication Alliance?**

The Payphone Communication Alliance ("PCA") was formed to support Congressional and Federal Communications Commission ("FCC") policies to increase competition in the payphone industry. The PCA believes that free market competition will provide the best value for consumers, will lead to extensive deployment of payphones throughout the country and will encourage rapid advances in payphone technologies.

Payphone Communication Alliance (PCA)	The Payphone Communication Alliance (PCA) was formed to support Congressional and Federal Communications Commission (FCC) policies to increase competition in the payphone industry. The PCA believes that free market competition will provide the best value for customers, will lead to extensive deployment of payphones throughout the country and will encourage rapid advances in payphone technologies.
Payphone Service Providers (PSPs)	Owners and operators of public payphone equipment and services. There are two types of PSPs - independent payphone providers (IPPs) and local telephone companies or their affiliates. The IPPs are non-telephone company payphone providers. They are typically small, entrepreneurial businesses.
Per-Call Compensation	Compensation paid by a long distance company to a payphone service provider for the use of a payphone in placing dial around and toll-free calls.
Telecommunications Act	In 1996, Congress enacted a law which redesigned the landscape in which the U.S. telecommunications industry, including payphones, competes. In addition, Section 276 provides that local telephone companies are prohibited from subsidizing payphone operations, as was done for years prior to the Act. These subsidies were eliminated on April 15, 1997. Also, under the Act, PPS be "fairly compensated for each and every call" made from payphones. This requirement ended the free ride that long distance companies enjoyed for years on many toll-free and dial around calls from payphones.

PAYPHONE COMPENSATION TIMELINE

Feb. 96 — Congress Passes Telecommunications Act of 1996

Section 276 of the Act provides:

1. All payphone providers must be "fairly compensated" for all payphone calls
2. "Marketplace" solutions are encouraged to promote widespread payphone deployment and technological improvements
3. Traditional subsidies of local telephone companies' payphone operations must be eliminated in order to promote competition

Nov. 96 — FCC Adopts Compensation Rules

1. Payphone providers must be compensated 35 cents per call for toll-free and dial around calls, effective 10/7/97
2. Local coin rates in all states are deregulated as of 10/7/97
3. Local Exchange Carrier (LEC) subsidies for payphone services must be eliminated by 4/15/97

April 97 — Interstate Payphone Subsidies Eliminated

LECs eliminate more than $250 million in interstate access charges paid by long distance companies to subsidize payphones

July 97 — Appeals Court Remands Rules to FCC

Federal Court of Appeals, DC Circuit, remands 35-cent per-call compensation rate to FCC for reconsideration

Aug. 97

Oct. 97 — FCC Revises Compensation Rules

FCC reduces per-call compensation rate from 35 cents to 28.4 cents

Nov. 97

Dec. 97 — FCC's Revised Compensation Rules Challenged

Parties file challenges to 28.4-cent compensation rate with FCC and in US Court of Appeals

March 98 – April 98 — FCC Decision on Rule Challenges Anticipated

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AT&T, MCI, Sprint and other long distance carriers repeatedly raise 800 rates to cover per-call compensation. In 1997, AT&T alone gained $641.6 million from rate increases on toll-free, business long distance and credit card calls.

AT&T adds a 28¢ per-call surcharge on top of rate increases to cover per-call compensation.

MCI and Sprint each add per-call surcharges of 30¢ on top of rate increases to cover per-call compensation.

Payphone Communication Alliance

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ABOUT PCA

The Payphone Communication Alliance ("PCA") was formed to support Congressional and Federal Communications Commission ("FCC") policies to increase competition in the payphone industry. The PCA believes that free market competition will provide the best value for consumers, will lead to extensive deployment of payphones throughout the country and will encourage rapid advances in payphone technologies.

The PCA can be reached at:

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FROST & SULLIVAN

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To: Jim Hawkins, Co-Chair of the Payphone Communications Alliance
Vince Sandusky, Co-Chair of the Payphone Communications Alliance
From: Brian Cotton
Date: February 26, 1998
Subject: Long-distance company commission savings

Dear Mr. Hawkins and Mr. Sandusky:

Please find attached a spreadsheet model depicting the long-distance companies' savings in commissions to Payphone Service Providers (PSPs) due to the shift from 0+ dialing to dial-around calling from payphones since 1993. This model assumes that the average number of 0+ calls from a payphone would have remained constant had the 1990 law which mandated equal access from payphones, not passed. *Our conclusion is that the long-distance companies, industry-wide, have saved a minimum of $371.5 million in commission payments in 1997 alone from paying less in commissions to PSPs, due to a shift from 0+ to dial-around calls from payphones.*

The estimate of the number of payphones installed in the U.S. market (1993-1997) is based on Local Exchange Carrier (LEC) reports to the Federal Communications Commission (1,694,000 in 1997), and an estimate of the number of independent payphones and payphones from LECs not required to be reported to the FCC (529,000 payphones in 1997). Note that our results for the industry-wide commission savings are conservative, since we used a conservative estimate of the number of payphones from independent and non-reporting LECs.

To explain this model in more detail, we first estimated the average number of 0+ calls made from a payphone in a month in a given year (C1), and multiplied it by the average commission paid for each 0+ call (M). We then multiplied this monthly figure by 12 months, and multiplied this result by the estimated number of payphones installed in the U.S. market in a given year (Q) to arrive at the total payphone commission paid by the long-distance companies (TC1).

Next, we assumed that the 1990 law had not been enacted. We conservatively estimated that the average number of 0+ calls from payphones remained constant at 51.02 for the analysis period (C2), and calculated the total payphone commission paid by the long-distance companies had the 1990 law not passed (TC2).

Finally, to calculate the amount of payphone commissions that the long-distance companies saved each year since the 1990 law was enacted (Savings), we subtracted the actual commission payments (TC1) from the baseline commissions (TC2). Thus in 1997 alone, the long-distance companies saved $371.5 million in payphone commissions.

To extrapolate from these figures, if the number of payphones installed continues to grow past 1997, the long-distance companies' savings should grow significantly.

Please do not hesitate to call me on my direct line (650-237-4315) if you have any questions about this material.

Sincerely,

Brian Cotton

Long Distance Company Commission Savings (since 1993)

Y	C1	C2	M	Months	Q	TC1	TC2	Savings
1997	16.20	51.02	$0.40	12	2,223,000	$172,860,480	$544,403,808	$371,543,328
1996	19.13	51.02	$0.40	12	2,111,000	$193,840,464	$516,975,456	$323,134,992
1995	25.21	51.02	$0.40	12	2,056,000	$248,792,448	$503,506,176	$254,713,728
1994	38.75	51.02	$0.40	12	2,091,000	$388,926,000	$512,077,536	$123,151,536
1993	51.02	51.02	$0.40	12	2,032,000	$497,628,672	$497,628,672	$0

Key

Y = Year

C1 = Average number of 0 + Calls made from Payphones each month

C2 = Estimated average number of 0+ calls, if 1992 law had not passed

M = Average Commission PIC pays to PSP for each 0 + Call, based on FCC imposed compensation of $0.40 per call

Months = # of Months in a Year

Q = Number of Payphones installed in the U.S. in the given year

TC1 = Total yearly Commissions PIC pays PSP for 0 + Calls

TC2 = Total yearly commissions paid if 1992 law had not passed

Savings = savings in compensation between baseline (TC2) and actual commissions (TC1)

Source: Frost Sullivan

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To:	Jim Hawkins, Co-Chair of the Payphone Communications Alliance Vince Sandusky, Co-Chair of the Payphone Communications Alliance
From:	Brian Cotton
Date:	February 26, 1998
Subject:	Impact of AT&T rate increases for payphone compensation

Dear Mr. Hawkins and Mr. Sandusky:

This memo is intended to present our analyses of the quantitative impact on AT&T of their rate increases to cover payphone compensation for dial-around and toll free calls. *Our conculsion is that the rate increases allowed AT&T to gain approximately $641.6 million in 1997. As you will see from this document, the rate increases were in effect for only part of the year in 1997, and whereas they were relatively significant, the figures for 1998 are likely to be even higher.*

The methods by which we performed these analyses involved taking the public statements made by AT&T on January 21, 1998 about their rate increases, estimating AT&T's share of that market, and multiplying them to arrive at AT&T's annual expected revenue from that market prior to any of the announced rate increases. Next, we multiplied the rate increase by the revenue to arrive at an estimate of the annual added revenues from the rate increases. We then divided this annualized figure by 12 months to arrive at an average monthly figure for these added revenues, and then multiplied this monthly figure by the number of months in 1997 which were subject to the rate increases. We then added this figure to the expected revenue figure prior to the rate increases to arrive at the total 1997 revenue. The final calculation involved subtracting the pre-rate increase revenue from the total post-rate increase revenue to give us the quantitative impact of the rate increases on each service.

I will explain the impact of each rate increase, as generated by our analyses, below.

The first analysis, entitled "Total Toll Free Market," quantifies the gain AT&T would realize in 1997 from a 3 percent increase in toll free rates to cover its payphone liability, effective February 27, 1997. This figure, highlighted in the last column of the Total Toll Free section, shows that AT&T would gain $160.6 million from the rate increase in March through December 1997. The column before this shows the total AT&T revenues in 1997 for toll free including both pre- and post-increase revenues.

The second analysis, entitled "Business Calling Cards," quantifies the gain AT&T would realize in 1997 from a $0.15 per call increase in business calling card rates to cover its payphone liability, effective February 27, 1997. This figure, highlighted in the last column of the Business Card section, shows that AT&T would gain $46.7 million from the rate increase in March through December 1997. The column before this shows the total AT&T revenues in 1997 for business calling card calls including both pre- and post-increase revenues.

The third analysis, entitled "Business International," quantifies the gain AT&T would realize in 1997 from a 2 percent increase in business international rates to cover its payphone liability, effective May 1, 1997. This figure, highlighted in the last column of the Business International section, shows that AT&T would gain $57.0 million from the rate increase in May through December 1997. The column before this shows the total AT&T revenues in 1997 for business international including both pre- and post-increase revenues.

The fourth analysis, entitled "Inbound Interstate Toll Free," quantifies the gain AT&T would realize in 1997 from a 7 percent increase in interstate toll free rates to cover its payphone liability, effective May 1, 1997. This figure, highlighted in the last column of the Inbound Interstate Toll Free section, shows that AT&T would gain $239.8 million from the rate increase in May through December 1997. The column before this shows the total AT&T revenues in 1997 for inbound interstate toll free including both pre- and post-increase revenues.

The final analysis, entitled "U.S. Business Interstate Outbound Long Distance Service," quantifies the gain AT&T would realize in 1997 from a 2 percent increase in toll free rates to cover its payphone liability, effective May 1, 1997. This figure, highlighted in the last column of the U.S. Business Interstate Outbound Long Distance Service section, shows that AT&T would gain $137.5 million from the rate increase in March through December 1997. The column before this shows the total AT&T revenues in 1997 for business interstate outbound long distance including both pre- and post-increase revenues.

Please note that we found AT&T's statements to be unclear for the final analysis, in that one could read the statement "...prices for business international and interstate outbound services by 2 percent (point #5 of the release)," in two ways. The increases could be construed to apply to all interstate outbound services (business plus residential), or it could be read to apply to only business outbound interstate services. We chose a conservative approach by focusing the analysis on only the business outbound interstate interpretation. Including the residential segment with this analysis would increase AT&T's gains significantly.

Please do not hesitate to call me on my direct line (650-237-4315) if you have any questions about this material.

Sincerely,

Brian Cotton

Brian Cotton

Impact of ATT rate increases for payphone compensation (1997)

Total Toll Free Market (1)								
Year	Market Size	AT&T Share (est)	AT&T revenue	Rate increase (%)	added revenues	Ave. monthly revenues (post increase)	Total AT&T toll free revenues	1997 Gains
1997	$ 12,350,000,000	0.52	$ 6,422,000,000	0.03	$ 192,660,000	$ 16,055,000	$ 6,582,550,000	**$ 160,550,000**
Business Calling Cards (2)								
Year	Market Size (calls)	AT&T Share (est)	AT&T business calling card calls	Rate increase (per call)	ave. monthly revenues (due to increase)	total revenue increase (after rate increase)	Total market revenues	AT&T business card revenues (post-increase)
1997	868,500,000	0.43	373,455,000	$ 0.15	$ 4,668,188	$ 46,681,875	$ 5,060,000,000	$ 2,175,800,000
							Total AT&T business calling card revenues	1997 Gains
							$ 2,222,481,875	**$ 46,681,875**
Business International (3)								
Year	Market Size	AT&T Share (est)	AT&T revenue	Rate increase (%)	added revenues	Ave. monthly revenue increase (after rate increase)	Total AT&T business international revenues	1997 Gains
1997	$ 8,730,000,000.00	0.49	$ 4,277,700,000	0.02	$ 85,554,000	$ 7,129,500	$ 4,334,736,000	**$ 57,036,000**
Inbound interstate toll-free (4)								
Year	Market Size	AT&T Share (est)	AT&T revenue	Rate increase (%)	revenue increase	Ave monthly increase	Total AT&T inbound interstate toll free revenues	1997 Gains
1997	$ 9,880,000,000	0.52	$ 5,137,600,000	0.07	$ 359,632,000	$ 29,969,333	$ 5,377,354,667	**$ 239,754,667**
U.S. Business Interstate Outbound Long Distance Services (5)								
Year	Market Size	AT&T Share (est)	AT&T revenue	Rate increase (%)	AT&T rev increase	Ave monthly increase	Total business interstate outbound revenues	1997 Gains
1997	$ 23,178,720,000	0.445	$ 10,314,530,400	0.02	$ 206,290,608	$ 17,190,884	$ 10,452,057,472	**$ 137,527,072**

Notes

(1) The AT&T rate increase was announced on 27 Feb 97, 10 months are assumed to be affected.

(2) The AT&T rate increase was announced on 27 Feb 97

Market sizing: A business card call is equivalent to one 5 minute call

(3) Business international rates increases effective 1 May 97

(4) Inbound interstate toll free revenues are assumed to be 80 percent of the total toll free market revenues in 1997.

Increases effective 1 May 97

(5) Rate increases effective 1 May 97

Business interstate outbound long distance services account for approximately 43% of total market

AT&T's market share for business long distance services is less than residential share

Interstate interLATA toll calls are somewhat more expensive than interLATA intrastate calls

Total AT&T Gains in 1997

$ 641,549,614